Value life's benefits

2004

State of Michigan

State of Michigan

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COMPANY	DEPARTMENT	HOURS	PHONE / WEB ADDRESS
Fringe Benefits Management Co. (Flexible Spending Accounts)	FBMC Customer Service Automated Services	M - F 7 a.m. - 10 p.m. 24 hours a day	1-800-342-8017 1-800-865-3262 850-425-4608 (FAX) www.fbmc-benefits.com

EMPLOYER	DEPARTMENT	HOURS	PHONE / WEB ADDRESS
State of Michigan	Department of Civil Service Employee Benefits Division 400 South Pine Street P.O. Box 30002 Lansing, MI 48909	M - F 8 a.m. - 5 p.m.	1-800-505-5011 www.michigan.gov/mdcs Click on “Employee Benefits,” then “Flexible Spending Accounts”

Enrollment At A Glance

IMPORTANT DATES TO REMEMBER

YOUR OPEN ENROLLMENT DATES ARE:
October 19 through November 8, 2003

YOUR PERIOD OF COVERAGE DATES ARE:
January 1, 2004 through December 31, 2004

Your Open Enrollment

The State of Michigan has implemented Flexible Spending Accounts (FSAs) to help you reduce your taxes and increase your spendable income. Taking advantage of the plan is simple; just select the Flexible Spending Account(s) you need — Medical Expense FSA, Dependent Care FSA or both.

You authorize per-pay-period deposits to your FSA from your before-tax salary. When you incur eligible medical or dependent care expenses, you request tax-free withdrawals from your account to reimburse yourself. You never have to pay federal or state income taxes, FICA or Medicare on the money you contribute to your FSA. Since you pay less in taxes, you have more spendable income.

Important Enrollment Information

- **You must carefully read this booklet and calculate your estimated expenses.**
- **Enrollments must be entered in HRMN Self Service at www.michigan.gov/selfserv.**
- In addition to the FSA Worksheets in this booklet, you can also use the online calculators on the State of Michigan Web site at www.michigan.gov/mdcs. Click on “Employee Benefits,” then “Flexible Spending, Calculators.”
- If you do not have HRMN Self Service, contact your Human Resources Office.
- Access to your HRMN Self Service Account will be 24 hours a day, 7 days a week. Passwords for the HRMN Self Service were issued to all employees effective February 2003. **Password assistance is available at www.michigan.gov/selfserv under “Helpful Information.”**
- When you have completed your online enrollment, you will immediately receive an electronic Confirmation Statement on the screen. **Please print this Confirmation Statement, as it is the only one you will receive.**
- You may call FBMC Customer Service at 1-800-342-8017. The representatives are knowledgeable specialists that can help you calculate your eligible expenses and can also answer any questions regarding how the program works.
- FBMC cannot assist with HRMN Self Service questions.

Your enrollment must be completed by November 8, 2003

- If you have questions about Flexible Spending Accounts, call Fringe Benefits Management Company Customer Service at 1-800-342-8017, Monday through Friday, 7 a.m. to 10 p.m. ET, 1-800-955-8771 (TDD).

Interactive Benefits

Information regarding your FSAs is just a phone call away! Call Interactive Benefits 24 hours a day at: 1-800-865-FBMC (3262) to review your FSA information and request reimbursement forms. See Page 4 of this booklet for details.

Internet Access

Customer Service is now available to you through the FBMC homepage. Log on to **www.fbmc-benefits.com** and click on the "Customers" link.

To access your personal account, enter your Social Security number as your Employee Number and the last four digits of your SSN as your temporary password. (If you have already used the Interactive Benefits telephone information line, the password you've chosen there will be the password you use online.)

You may also contact FBMC Customer Service at webcustomerservice@fbmc-benefits.com.

Access Your Benefits *On the web and over the phone*

FBMC Web Site

FBMC's Web site provides comprehensive information regarding your benefits and details on your Flexible Spending Account(s).

Enter **www.fbmc-benefits.com** into your Internet browser. This will bring you to FBMC's new homepage. Navigational tabs to customer links are located along the top portion of the page. By simply clicking on one of these tabs and entering your Social Security Number (SSN) and Personal Identification Number (PIN), you'll be able to access the information you need (see "A Word About Your PIN" in the column at right). The following Web site customer links are available to meet your benefit needs:

Account Information

If you select the 'Account Information' tab, you'll be prompted to enter your Social Security Number (SSN) and PIN. Follow the prompts to access your FSA details.

You'll notice a navigational menu on the left panel of the Web page. These menu items allow you to check the history of your FSA transactions, balance, and claims you submitted.

Downloading Forms

If you select the 'Download Forms' tab, a choice of forms including a FSA Reimbursement Claim form, Medical Necessity or Direct Deposit Form are posted for your convenience. You'll need Acrobat Reader to view and print these forms. A link to download the Acrobat Reader application is located at the bottom of the Web page.

Frequently Asked Questions

The 'Frequently Asked Questions' tab will provide answers to many of your general questions regarding Flexible Spending Accounts, and enrollment information.

FBMC Customer Service

The 'Customer Service' tab gives you a direct link to the FBMC Customer Service Center.

FBMC Interactive Benefits

FBMC's 24-hour automated phone system allows you to access your benefits any time to check on a claim, verify the status of a Flexible Spending Account, request a form and more! Getting connected to your benefits is easy. Call the Information Line at: **1-800-865-FBMC (3262).**

A Word About Your PIN

To access both the FBMC Web site and the Interactive Voice Response system, all you need is your Social Security Number (SSN). The last four digits of your SSN will be your first PIN. Then:

On the Web

The site will ask you to select your own confidential four-digit PIN for future use. This new PIN cannot be the last four digits of your SSN, as it was previously. If you forget your PIN, you may send an e-mail to a Customer Service Representative by clicking on the link at the upper left hand corner of the page. A representative will respond via e-mail with further instructions. Once you've selected your new PIN, you may access information about your benefits.

Over the Phone

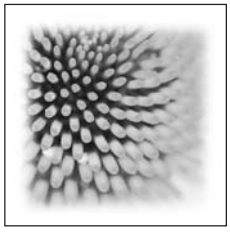
The system will ask you to select your own confidential four-digit PIN for future use. This new PIN cannot be the last four digits of your SSN, as it was previously. If you forget your PIN, you may press '0' at any time to speak with a Customer Service Representative. Once you've selected your new PIN, the system will give you the following list of options from which to choose.

Please keep your PIN in a safe place. The PIN you select will give you access to both the Interactive Voice Response system and the FBMC Web site.

MAIN MENU OPTIONS:

Press 1 Flexible Spending Accounts
Press 2 Form requests
Press 3 Change PIN
Press 4 Verify address

Other Options:
Press 0 Customer Service Representative
Press 9 Main Menu
Press * Repeat the menu
Press # Exit Information Line



Eligibility Requirements

When does my period of coverage begin?

Current Employees: Your period of coverage is January 1, 2004 through December 31, 2004. See Page 13 for information about changing your coverage.

New Employees: New employees must enroll within **30 days** of their hire date. For mid-year enrollments, the enrollment form must be received by the Employee Benefits Division by the 10th of the month for eligibility to begin the first day of the following month. If you do not complete a form during this initial eligibility period, you must wait until the next annual Open Enrollment or until you experience a valid Change in Status (see Page 13). **Mid-year enrollment forms are available on the Employee Benefits Web site at www.michigan.gov/mdcs.**

If you enroll during Open Enrollment, your period of coverage is the same as the plan year (January 1, 2004 through December 31, 2004).

Who is eligible to enroll in the Flexible Benefits Plan?

- All State of Michigan employees except non-career, contractual or student assistant employees
- Anyone who is a Seasonal Employee must ensure that the number of deduction pay dates elected are within the months of employment to ensure the annual deduction amount desired can be fulfilled.

Who are eligible dependents?

Eligible dependents include:

- your legal spouse
- your own unmarried dependent children
- dependent children for whom you have been appointed legal guardian
- stepchildren and legally adopted children (provided they reside in your household and primarily depend on you for support).

How will retiring affect my eligibility?

According to federal and state law, if you participated in a Medical Expense FSA during the plan year, you can choose to continue your Medical Expense FSA coverage under COBRA if you experience a triggering event. At the end of the plan year in which the COBRA-qualifying event occurred, however, your Medical Expense FSA coverage will be canceled (See Page 16 for further details). If an employee meets the annualized amount before retiring, eligibility will continue for the remainder of the year. **This does not apply to the Dependent Care Flexible Spending Account.**

Appeal Process

FSA reimbursement claims

You have the right to appeal the decision by sending a written request to **Fringe Benefits Management Company (FBMC), P.O. Box 1878, Tallahassee, FL 32302-1878 – FBMC Customer Service 1-800-342-8017** for review within **30 days** of your receipt of denial.

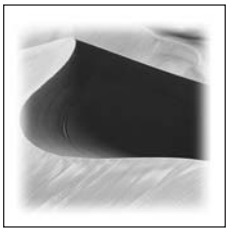
Your appeal must state:

- the name of your employer
- why you think your request should not have been denied
- the date of the services for which your request was denied
- a copy of the denied request
- the denial letter you received
- any additional documents, information or comments you think may have a bearing on your appeal.

Mid-year Enrollments or Change in Status Denial

You have the right to appeal the decision by sending a written request to the State of Michigan, Employee Benefits Division for review within **30 days** of receipt of the denial (contact information can be found on Page 2).

PLEASE NOTE: Appeals are approved only if the extenuating circumstances and supporting documentation are within IRS regulations governing the plan.



Flexible Spending Accounts

What is a Flexible Spending Account?

A Flexible Spending Account (FSA) is an IRS-approved, tax-free account that saves you money on eligible medical and dependent care expenses. You authorize per-pay-period deposits to your FSA from your before-tax salary. Then, as you incur eligible expenses, you request tax-free withdrawals from your account to reimburse yourself. There are two kinds of FSAs: a Medical Expense FSA and a Dependent Care FSA. If you incur both types of expenses, you can establish both accounts.

Why would I enroll in a FSA? To Save Money!

Over a year's time, you will probably spend a part of your salary on healthcare or dependent care expenses. You can save money by putting that amount directly into a Flexible Spending Account.

Get the facts about FSAs

If you have questions, call FBMC Customer Service (Monday-Friday, 7 a.m.-10 p.m.) at 1-800-342-8017, or visit www.fbmc-benefits.com. You may also e-mail Customer Service at webcustomerservice@fbmc-benefits.com. Please note that due to FBMC's Privacy Policy, we will not discuss your account information with others without your verbal or written authorization.

Receiving Reimbursement

Your reimbursement should be processed within ten business days from the time we receive your properly completed and signed reimbursement request. To avoid delays, follow the instructions for submitting your requests located in the FSA materials you will receive following enrollment.

Direct Deposit

Enroll in Direct Deposit to ensure that your FSA reimbursement checks are automatically deposited into your checking or savings account. There is no fee for this service, and you don't have to wait for postal service delivery of your reimbursement (however, you will receive notification that the claim has been processed). To apply, complete the application form available from FBMC Customer Service at 1-800-342-8017, or visit www.fbmc-benefits.com. Please note that processing your Direct Deposit application may take between four to six weeks. Claims in the interim will be paid via check.

FSA Guidelines:

1. The IRS does not allow you to pay your medical or other insurance premiums through either type of FSA.
2. You cannot transfer money between FSAs or pay a dependent care expense from your Medical Expense FSA or vice versa.
3. **You have a 90-day grace period (until March 31, 2005)** at the end of the plan year for reimbursement of eligible FSA expenses incurred during your period of coverage within the 2004 Plan Year.
4. You may not receive insurance benefits or any other compensation for expenses which are reimbursed through your FSAs.
5. You cannot deduct reimbursed expenses for income tax purposes.
6. You may not be reimbursed for a service which you have not yet received.
7. Be conservative when estimating your medical and/or dependent care expenses for the 2004 Plan Year. IRS regulations state that any unused funds which remain in a FSA after a plan year ends and all reimbursable requests have been submitted and processed, any remaining monies cannot be returned to you nor carried forward to the next plan year.

Written Certification

When enrolling in either or both FSAs, written notice of agreement with the following will be required:

- I will only use my FSA to pay for IRS-qualified expenses and only for my IRS-eligible dependents
- I will exhaust all other sources of reimbursement, including those provided under my employer's plan(s) before seeking reimbursement from my FSA
- I will not seek reimbursement through any other source and
- I will collect and maintain sufficient documentation to validate the foregoing.

When you complete your HRMN self-service online enrollment, you are ceritifying your agreement with the statements listed above.

Without an FSA: (Example)*

$50.00	monthly budget for a medical expense
- 11.33	taxes on that $50 taken from your paycheck
$38.67	amount you have left for medical expense

With an FSA: (Example)

$50.00	monthly FSA deposit for a medical expense
- 0.00	no taxes (no taxes on FSA deposits)
$50.00	amount you have left for medical expense

*Based upon a 22.65% tax rate (15% federal and 7.65% Social Security).

Because the money you deposit in your Medical and Dependent Care FSA is deducted before taxes, the income you use for these expenses is ALWAYS TAX FREE.

Flexible Spending Accounts *Continued*

What documentation of expenses do I need to keep?

The IRS requires FSA customers to maintain complete documentation, including keeping copies of receipts for reimbursed expenses, for a minimum of one year.

How do I get the forms I need?

To receive forms you will need after enrolling in either a Medical Expense or Dependent Care FSA, such as a FSA Reimbursement Form, Medical Necessity Form or Direct Deposit Form, you can contact FBMC Customer Service at 1-800-342-8017, or visit FBMC's Web site, www.fbmc-benefits.com. For more information, refer to the *Access Your Benefits* section of this booklet.

Why is my signature needed on the FSA Reimbursement Request Form?

Your Flexible Spending Accounts are tax-favored accounts, and must follow strict guidelines. Your signature on the form submitted for reimbursement serves as a required certification that you are abiding by the plan rules. We cannot process your request without it!

Are prescriptions eligible for reimbursement?

Yes, most filled prescriptions are eligible for reimbursement. However, in response to new state and federal privacy standards, some pharmacy chains have discontinued listing prescription names on their receipts. The IRS requires this information to ensure that the drug is eligible for reimbursement, so the complete name and prescription number of the drug must be obtained and documented on your receipt before submitting it with your request to FBMC for reimbursement.

Is transportation for medical care reimbursable?

Yes, it is reimbursable, as long as a receipt, statement or bill is sent along with your request to validate your visit. Travel expenses for medical care, including healthcare provider and pharmacy visits, can include:

- actual roundtrip mileage*
- parking fees
- tolls and
- transportation to another city, if the trip is primarily for, and essential to, receiving medical care.†

Guidelines on eligible travel expenses and how to calculate and submit expenses for reimbursement will be included in the materials you receive following enrollment in a Medical Expense FSA.

Termination or Leave

Medical Expense FSAs

If you terminate employment or go on unpaid leave, you may change or continue your Medical Expense FSA election upon completion of the appropriate forms and requirements. To make this change or to continue coverage, contact the State of Michigan, Employee Benefits Division within **30 days** of the event by calling 1-800-505-5011.

You have a 90-day grace period, after the end of the plan year, within which to submit eligible Medical Expense FSA expenses incurred during your period of coverage within the plan year. Refer to the "FSA Guidelines" portion of the *Flexible Spending Accounts* section for more information.

The Family and Medical Leave Act (FMLA) may affect your rights to continue coverage while on leave. Please contact your employer for further information.

Dependent Care FSAs

If you terminate employment or go on unpaid leave, you cannot continue contributing to your Dependent Care FSA. You can, however, continue to request reimbursement for eligible expenses incurred through your last day worked, until you exhaust your account balance or the plan year ends.

* Calculate the mileage on the actual receipt detailing the following: mileage multiplied by the current IRS rate per mile ($0.12, subject to federal change each tax year) and the name of the provider visited.

† (IRS Publication 502)

Medical Expense FSA

Minimum Deposit: $2 biweekly
Maximum Deposit: $5,000 annually

Who is eligible?

Under the Medical Expense FSA, you may be reimbursed for eligible expenses incurred by the following:

- yourself
- your spouse and
- your tax dependents. To qualify as your tax dependent, an individual must meet all the following criteria:
  a) must be your relative, or, if not your relative, live with you for the entire calendar year
  b) must be a U.S. citizen or a resident of the U.S., Mexico or Canada and
  c) you must have provided the individual with at least half of their total support and/or expenses during the calendar year.

An eligible child of divorced parents is treated as a dependent of both parents. Therefore, either or both parents can establish a Medical Expense FSA, but cannot claim for the same date of service.

Availability

Once you sign up for a Medical Expense FSA and decide how much to contribute, the maximum elected annual amount of reimbursement for eligible medical expenses will be available throughout your period of coverage, provided the request does not exceed your annualized contribution.

It's like a cash advance because you don't have to wait for the cash to accumulate in your account before you can use it to pay for your uninsured, eligible medical expenses. Your money is tax free and interest free!

Special Ordering Rule

Expenses must first be submitted for payment to any health plan(s) provided by your employer in which you participate. Any remaining out-of-pocket expenses may then be submitted for reimbursement from your Medical Expense FSA.

FSA vs. Claiming Expenses on IRS Form 1040

Unless your itemized medical expenses exceed 7.5 percent of your adjusted gross income, you can't get a break by claiming them on your IRS Form 1040.* But you can save taxes by paying for your uninsured, out-of-pocket medical expenses through a tax-free Medical Expense FSA.

For instance, if your adjusted gross income is $45,000, the IRS would only allow you to deduct itemized expenses that exceed $3,375 or 7.5 percent of your adjusted gross income. But, if you have $2,000 in eligible medical expenses, the FSA saves you $653 on your medical expenses in federal income (25 percent) and Social Security taxes (7.65 percent).

With a Medical Expense FSA, the money you set aside for medical expenses is deducted from your salary before taxes. So, it is ALWAYS tax free, regardless of the amount. By enrolling in a Medical Expense FSA, you guarantee your savings.

Ineligible Expenses

- Insurance premiums
- Warranties and service contracts
- Health or fitness club membership fees
- Cosmetic surgery not deemed medically necessary to alleviate, mitigate or prevent a medical condition

Setting Aside Funds

Remember to estimate your expenses carefully. A change during the plan year in the cost, type or level of medical care or services provided to you or your family will not permit you to change your Medical Expense FSA election. Contact an FBMC Customer Service Representative at 1-800-342-8017 if you have other questions about eligibility.

Over-the-Counter Drugs

Recent IRS rulings have expanded the use of your Medical Expense FSA dollars! You can now be reimbursed for certain Over-the-Counter (OTC) antacid, pain relief, cold and allergy medicine expenses through your Medical Expense FSA. Reimbursement for OTC drugs and medicines is available if:

- the medicine was used for a specific medical condition for you and/or your dependent(s)
- the submitted receipt clearly states the purchase date and name of the medicine
- the reimbursement request is for an expense allowed by your employer's plan
- your request was submitted in the timely and complete manner described in your benefits enrollment information.

NOTE: The category list of Over-the-Counter drugs and medicines eligible for reimbursement will be updated on a quarterly basis by FBMC. It is your responsibility to remain informed about updates to this list. As soon as a drug or medicine is added to the list, it will be reimburseable retroactively to the start of the then current plan year. However, newly eligible medicines are not considered a valid Change in Status event affecting Medical Expense FSA contributions. Be sure to maintain sufficient documentation to submit receipts for reimbursement. You may resubmit a copy of your receipt from your records if a rejected OTC expense becomes eligible for reimbursement later in the same plan year.

* Both you and your spouse's incomes must be included for the purposes of determining adjusted gross income.

Medical Expense FSA *Continued*

Orthodontia

Orthodontia treatment designed primarily to improve one's appearance is **not** reimbursable. Orthodontia treatment designed to treat a specific medical condition is reimbursable if the following documentation is attached to the initial Flexible Spending Account Form each plan year:

1. A written statement (e.g., bill) from the treating dentist/orthodontist showing the date the service was rendered, the identity of the individual receiving the service and the cost for the service.
2. A Letter of Medical Need from the treating dentist/orthodontist. Visit the FBMC Web site at www.fbmc-benefits.com, or call FBMC Customer Service at 1-800-342-8017 to obtain this letter.
3. A copy of the patient's contract with the dentist/orthodontist for the orthodontia treatment.

For payment options available under your employer's plan, refer to the information sheet provided following your enrollment. If you have specific questions prior to enrollment, call FBMC Customer Service at 1-800-342-8017. State of Michigan participants that contributed to the Medical Care Flexible Spending Account for orthodontia during the 2003 Plan Year will be exempt from the medical need requirement.

Weight-loss Programs and the IRS

It is significant to note that the IRS officially recognizes obesity as a disease, and out-of-pocket medical expenses for doctor prescribed treatment of obesity as reimbursable under your Medical Expense FSA. This includes treatment in weight-loss programs and/or meetings, but it excludes diet foods that are substitutes for normal nutritional requirements.

Requesting Reimbursement

To request reimbursement from your Medical Expense FSA, you must mail or fax a correctly completed FSA Reimbursement Request Form along with one of the following:

- a receipt, invoice or bill from your healthcare provider listing the date you received the service, the cost of the service, the specific type of service and the person for whom the service was provided
- an Explanation of Benefits (EOB)* from your health insurance provider that shows the specific type of service you received, the date and cost of the service and any uninsured portion of the cost and
- Some medical services require additional supporting documentation, including a Letter of Medical Need from the treating healthcare provider, a personal use letter from the patient and an independent capital expense appraisal letter. Visit FBMC's Web site at www.fbmc-benefits.com to obtain sample letters. You may request reimbursement for IRS-qualified expenses that are eligible under your employer's plan.

Mail to: Contract Administrator
Fringe Benefits Management Co.
P.O. Box 1800
Tallahassee, FL 32302-1800
Fax to: 850-425-4608

Partial List of Eligible Expenses*

Acupuncture[1]
Ambulance service
Birth control pills and devices
Chiropractic care[1]
Contact lenses (corrective)[2]
Dental fees[1]
Diagnostic tests/health screening
Doctor fees[1]
Drug addiction/alcoholism treatment
Drugs[3]
Experimental medical treatment[1]
Eyeglasses[2]
Guide dogs
Hearing aids and exams
Injections and vaccinations
In vitro fertilization
Nursing services[1]
Optometrist fees
Orthodontic treatment[1]
Over-The-Counter (OTC) medicines[4]
Prescription drugs to alleviate nicotine withdrawal symptoms
Smoking cessation programs/treatments
Surgery[1]
Transportation for medical care
Vitamins/natural supplements[1]
Weight-loss programs/meetings[1]
Wheelchairs
X-rays

1. Some treatments or services require a letter of medical need from the treating healthcare provider.
2. Expenses are reimburseable based on the date available to be picked up, not the date ordered.
3. Not all drugs requiring a prescription are approved by the IRS as eligible for reimbursement.
4. Eligible categories of OTC drugs and medicines include: antacids, pain relievers, cold and allergy medicine expenses. See OTC information on Page 8.

Note: Budget conservatively. No reimbursement or refund of Medical Expense FSA funds is available for services/surgeries that do not occur.

* IRS-qualified medical expenses are subject to federal regulatory change at any time during a tax year.

* EOBs are not required if your coverage is through a HMO.

Dependent Care FSA

Minimum Deposit: $2 biweekly
Maximum Deposit: The maximum annual contribution depends on your tax filing status as the list indicates.

How the Dependent Care Flexible Spending Account Could Work for You

A Dependent Care FSA can help recover some of the money you spend to ensure your dependents (child, adult or elder) are taken care of while you and your spouse (if married) are working.

Whose expenses are Eligible?

Under the Dependent Care FSA, you may be reimbursed for eligible dependent care expenses incurred by the following:

- children 12 years or younger who reside in your household and
- adults/children mentally or physically incapable of self-care who spend at least eight hours a day in your household.

Tax Filing Status:

- If you are married and filing separately, your maximum is $2,500.
- If you are single and head of household, your maximum is $5,000.
- If you are married and filing jointly, your maximum is $5,000.
- If either you or your spouse earn less than $5,000 a year, your maximum is equal to the lower of the two incomes.
- If your spouse is a full-time student or incapable of self-care, your maximum is $3,000 a year for one dependent and $5,000 a year for two or more dependents.

Dependent Care FSA vs. Dependent Care Tax Credit

As the taxpayer, you must determine whether participation in a Dependent Care FSA, claiming a federal (and state) tax credit or exclusion or using a combination of the taxable and tax-free benefits is best for you. Your decision will depend on a number of factors, such as your tax filing status (e.g., married, single, head of household), number of qualifying dependents, amount of dependent care expenses, earned income, etc. Claiming the dependent care tax credit does not affect the amount of one's earned income or the amount of one's Earned Income Tax Credit.

Generally, the more income taxes you are required to pay, participation in the Dependent Care FSA may produce a better tax benefit with possibly two exceptions. You may realize a slightly greater tax benefit by claiming the dependent care tax credit if your W-2 income before FSA salary reductions is:

- less than $15,000 or
- about $37,000 - $39,000, you have only one qualifying individual and your eligible dependent care expenses for the tax year are less than $3,000.

The Dependent Care FSA may be better for you if you incur significantly more than $3,000 in dependent care expenses and have one qualifying individual. The maximum Dependent Care FSA limit of $5,000 may be available to you while only $3,000 of the expenses can be calculated for the dependent care tax credit. The Dependent Care FSA may be better for you if you are not eligible for the Earned Income Credit and you fall within the 25 percent marginal tax bracket (which starts at taxable income, not gross wages) over $56,800 for married individuals filing jointly (based on 2003 tax tables).

If you meet the criteria to combine the tax benefits of both the dependent care tax credit and the Dependent Care FSA in the same tax year, coordinating tax rules will apply. For example, if you participate in the Dependent Care FSA, you may be able to claim an additional dependent care tax credit in an amount equal to a percentage of $1,000 (if you have two or more qualifying individuals, a maximum Dependent Care FSA tax filing status of $5,000 and $6,000 or more in eligible dependent care expenses).

Note: You cannot use the dependent care tax credit if you are married and filing separately. Any dependent care expenses reimbursed through your Dependent Care FSA cannot be filed for the dependent care tax credit and vice versa.

To help you choose between the available taxable and tax-free benefits, or a combination of both, consult your tax advisor and/or the IRS for additional information. Visit www.fbmc-benefits.com to complete a tax-savings analysis.

Eligible Expenses

Generally, child, adult and elder care costs that allow you and your spouse to work or actively look for work are eligible for reimbursement. If you are married, your spouse must work, be a full-time student or be mentally or physically incapable of self-care.

Examples:

- Day care facility fees
- Local day camp fees
- Baby-sitting fees for at-home care while you and your spouse are working (care cannot be provided by you, your spouse or other tax dependent)

Dependent Care FSA *Continued*

Ineligible Expenses:

- Child support payments or child care if you are a non-custodial parent
- Payments for dependent care services provided by your dependent, your spouse's dependent or your child who is under age 19
- Healthcare costs or educational tuition
- Overnight care for your dependents (unless it allows you and your spouse to work during that time)
- Nursing home fees
- Diaper services
- Books and supplies
- Activity fees
- Kindergarten expenses
- Sports Camps

Requesting Reimbursement:

Each Dependent Care FSA reimbursement request sent by mail or fax must include a properly completed FSA Reimbursement Request Form, including receipts showing the following:

- the date your dependent received the care (for example, February 9, 2004 through February 13, 2004)– not the date you paid for the service
- the name and address of the facility or
- the name, address and signature of the individual providing the dependent care service and Taxpayer Identification Number.

Be certain you obtain and submit the above information when requesting reimbursement form your Dependent Care FSA. This information is required with *each* request for reimbursement.

Mail to: Contract Administrator
Fringe Benefits Management Co.
P.O. Box 1800
Tallahassee, FL 32302-1800

Fax to: 850-425-4608

Note: If you elect to participate in the Dependent Care FSA, or if you file for the Dependent Care Tax Credit, you must attach IRS Form 2441, reflecting the information above, to your 1040 income tax return. Failure to do this could result in the IRS not allowing your pre-tax exclusion.

Be certain you obtain and submit all needed information when requesting reimbursement from your Dependent Care FSA. This information is required with each request for reimbursement.

A properly completed signed and dated request will help speed along the process of your reimbursement, allowing you to receive your check or Direct Deposit promptly.

When to Request Reimbursement

You can request reimbursement as often as you like. However, your approved expense will not be reimbursed until the last date of service for which you are requesting reimbursement has passed.

For example, if you pay your dependent care provider on February 1 for the entire month of February, you can submit your reimbursement request for all of February, however, payment will be made only after the last day of care for that month has been received.

Make sure that your FSA Reimbursement Request Form is signed, dated and includes all required information (detailed above).

For timely processing of your reimbursement, your payroll contributions must be current.

Why do I need to obtain dependent care provider information for my Form 2441?

To claim the income exclusion for dependent care expenses on IRS Form 2441 (Child and Dependent Care Expenses), you must be able to list each dependent care provider's Taxpayer Identification Number (TIN). The TIN is an individual's Social Security Number, unless he or she is a resident or non-resident alien who does not have a Social Security Number.

If you are unable to obtain a dependent care provider's TIN, you must compose a written statement to the IRS that explains the circumstances and states that you made a serious and earnest effort to get the information. This statement must accompany your IRS Form 2441.

What is my Dependent Care FSA Availability?

Once you sign up for a Dependent Care FSA and decide how much to contribute, the funds available to you depend on the actual funds in your account. Unlike a Medical Expense FSA, the entire maximum annual amount is not available during the plan year, but rather after your payroll deductions are received.

FSA Worksheets

Deciding How Much to Deposit

To figure out how much to deposit in your FSA, refer to the following worksheets. Calculate the amount you expect to pay during the calendar and plan years for eligible, uninsured out-of-pocket medical and/or dependent care expenses. This calculated amount cannot exceed established IRS guidelines for calendar or plan year limits. (Refer to the individual FSA descriptions in this booklet for limits.) Be conservative in your estimates, since any money remaining in your accounts cannot be returned to you or carried forward to the next plan year.

TAX-FREE MEDICAL EXPENSE WORKSHEET

Estimate your eligible, uninsured out-of-pocket medical expenses for the plan year, which is January 1, 2004 through December 31, 2004.

YOUR UNINSURED MEDICAL, DENTAL AND VISION EXPENSES

_____ $_____

_____ $_____

_____ $_____

_____ $_____

_____ $_____

SUBTOTAL

Estimated eligible uninsured medical expenses for your period of coverage during the plan year (Amount cannot exceed $5,000). = $_____

DIVIDE

by your number of deductions during the plan year. (1-26)* ÷ $ _____

This is your pay period contribution. = $ _____

* If you are a new employee enrolling after the plan year begins, divide by the number of deductions remaining in the plan year.

TAX-FREE DEPENDENT CARE WORKSHEET

Estimate your eligible dependent care expenses for the plan year, which is January 1, 2004 through December 31, 2004.

NUMBER OF WEEKS

you will have dependent (child, adult or elder) care expenses during the plan year. *Remember to subtract holidays, vacations and other times you may not be paying for eligible child, adult or elder care.* = $ _____

MULTIPLY

by the amount of money you expect to spend each week. **X** $ _____

SUBTOTAL

Remember, your total contribution cannot exceed IRS limits for the plan year and calendar year. = $ _____

DIVIDE

by your number of deductions during the plan year. (1-26)* ÷ $ _____

This is your pay period contribution. = $ _____

* If you are a new employee enrolling after the plan year begins, divide by the number of deductions remaining in the plan year.

At your request, your FSA checks may be deposited into your checking or savings account by enrolling in Direct Deposit.

Changing Your Coverage

Am I permitted to make mid-plan year election changes?

Under some circumstances your employer's plans and the IRS may permit you to make a mid-year election change or vary a salary reduction, depending on the type of triggering event.

How do I make a change?

You can change your Flexible Spending Account (FSA) election(s), or vary the salary reduction amounts you have selected during the plan year, only under *limited* circumstances as provided by your employer's plan(s) and established IRS guidelines. A partial list of permitted, and not permitted events under your employer's plan(s) appear on the following page. *Election changes must be consistent with the event.* Contact the Employee Benefits Division (see contact information on Page 2).

To Make a Change: Within **30 days** of an event that is consistent with one of the events on the following page, **you must complete and timely submit a Change in Status/Election Form to the Employee Benefits Division (EBD)**. Contact EBD to obtain this form. Documentation supporting your election change request is required. Upon the approval and completion of processing your election change request, your existing FSA(s) elections will be stopped or modified (as appropriate). Generally, mid-plan year pre-tax election changes can only be made prospectively, no earlier than the first payroll after your election change request has been received by EBD. If your FSA election change request is denied, you will have **30 days**, from the date you receive the denial, to file an appeal with EBD. For more information, refer to the *Appeal Process* section on Page 5.

What is my Period of Coverage?

Your period of coverage for incurring expenses is your full plan year, unless you make a permitted mid-plan year election change. A mid-plan year election change will result in split periods of coverage, creating more than one period of coverage within a plan year and expenses incurred must be reimbursed from the correct period of coverage. For example, Ms. Stevens contributes $300 to her Medical Expense FSA. She has requested reimbursement and submitted receipts in accordance with IRS rules. She exhausts all her funds. Five months into the plan year, Ms. Stevens gets married. Because she realizes her medical expenses will increase, she adds another $300 to her second period of coverage. Ms. Stevens can now use the second installment of $300 for expenses that occurred after her Change in Status event (her marriage).

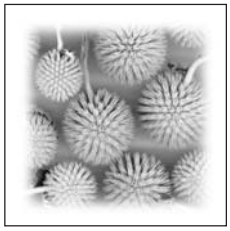
In some cases, a more complicated scenario may arise. For example, Mr. Smith contributed $400 to his Medical Expense FSA during Open Enrollment. Currently, he has not used any funds. Six months into the plan year, Mr. Smith's wife has a child. Because he realizes his medical expenses will increase, he adds $200 to his original contribution. Now, there is $600 in Mr. Smith's Medical Expense FSA since he has not submitted any expenses for reimbursement. While he is able to use this entire amount for expenses incurred after the date of his child's birth, Mr. Smith is prohibited from using the recently added $200 for expenses that occurred before the Change in Status event (the birth of his child).

What are the IRS Special Consistency Rules governing Changes in Status?

1. *Loss of Dependent Eligibility.* If a change in your marital or employment status involves a decrease or cessation of your spouse's or dependent's eligibility requirements for coverage due to: your divorce, or annulment from your spouse; your spouse's or dependent's death; or a dependent ceasing to satisfy eligibility requirements, you may elect to decrease or cancel coverage only for the individual(s) involved. You cannot decrease or cancel any other individual's coverage under these circumstances.
2. *Gain of Coverage Eligibility Under Another Employer's Plan.* If you, your spouse, or your dependent gains eligibility for coverage under another employer's plan as a result of a change in marital or employment status, you may stop or decrease coverage for that individual only if that individual gets coverage or has it increased under that employer's plan.
3. *Dependent Care Expenses.* For dependent care expenses, you may change or terminate your Dependent Care FSA (DFSA) election only if: (i) such change or termination is made on account of and corresponds with a Change in Status (CIS) that affects eligibility for coverage under your employer's or other employer's plan; or (ii) the election change is on account of and corresponds with a CIS that affects eligibility of dependent care expenses for the tax exclusion available under IRC § 129.

Changes in Status:

Marital Status	A change in marital status including marriage, death of a spouse, divorce or annulment (legal separation is not recognized in all states).
Change in Number of Tax Dependents	A change in number of dependents, including the following: birth, death, adoption, and placement for adoption. Existing dependents can also be added whenever a dependent gains eligibility as a result of a valid CIS event. IRS special consistency rule 1 may apply as noted at left.
Change in Status of Employment Affecting Coverage Eligibility	Change in employment status of the employee, or a spouse or dependent of the employee that affects the individual's eligibility under an employer's plan; such as commencement or termination of employment.
Gain or Loss of Dependents' Eligibility Status	An event that causes an employee's dependent to satisfy or cease to satisfy coverage requirements under an employer's plan such as: due to attainment of legal age; student status; marital status; employment status.



Some Other Permitted Changes:

Judgement/Decree/Order	If a judgement, decree, or order from a divorce, legal separation (if recognized by state law), annulment, or change in legal custody requires that you provide *accident or health coverage* for your dependent child (including a foster child who is your dependent), you may change your election* to provide coverage for the dependent child. If the Order requires that another individual (including your spouse and former spouse) cover the dependent child and provide coverage under that individual's plan, you may change your election to *revoke* coverage only for that dependent *child and only if the other individual actually provides the coverage.* *Does not apply to Dependent Care FSA.
Medicare/Medicaid	Gain or loss of Medicare/Medicaid eligibility and enrollment may trigger a permitted election change.
Family and Medical Leave of Act (FMLA) Leave of Absence	Election changes may be made under the special rules relating to changes in elections by employees taking FMLA leave. Contact your employer for additional information.

COBRA Q&A

Can I continue coverage after I terminate?

If you are a covered employee who has lost group health plan coverage due to a qualifying event, you, your spouse and dependents are each entitled, under the Consolidated Omnibus Budget Reconciliation Act (COBRA), to continue the group health plans (including Medical Expense FSA coverage) that were in effect on the day prior to the qualifying event.

What are COBRA Qualifying Events?

As a general rule, there is a "COBRA-qualifying event" if eligibility for coverage is lost due to:

- a covered employee's termination of employment occurring other than due to gross misconduct.
- a reduction in a covered employee's hours of employment.
- the death of a covered employee.
- a covered employee becoming entitled to Medicare.
- the divorce or legal separation of a covered employee.
- a child ceasing to qualify as a dependent under the terms of the plan.

How do I enroll in COBRA?

Within 60 days of a COBRA-qualifying event, you may enroll in COBRA and continue your Medical Expense FSA by contacting the Employee Benefits Division.

What are my Open Enrollment Rights?

If your Medical Expense FSA is funded solely with employee contributions, as a qualified beneficiary, you have no Open Enrollment rights.

How long is the COBRA coverage period?

As a qualified beneficiary, your COBRA coverage period extends no longer than the end of the plan year in which the qualifying event occurred.

How does COBRA affect my Medical Expense FSA Plan?

In accordance with COBRA, your employer offers COBRA continuation rights to qualified beneficiaries who have underspent their Medical Expense FSA accounts as of the date of the COBRA-qualifying event. Unless otherwise elected, the spouse and dependents of the person electing COBRA will be covered. Only qualified beneficiaries have election rights and may elect separate COBRA coverage with:

- a separate Medical Expense FSA at the elected annual limit in effect at the time of the COBRA-qualifying event and
- a separate COBRA premium through the end of the plan year in which the COBRA-qualifying event occurs.

Who are Qualified Beneficiaries?

Qualified Beneficiaries must be:

- a covered employee, the spouse of a covered employee or the dependent of a covered employee and
- covered by a group health plan immediately before the qualifying event occurs.

What happens if I retire, go on a leave of absence, experience a layoff, experience lost time, or separate from State Service?

If you are planning for any of these events to occur during the calendar year, you may sign up for your annual deduction to be spread over available pay periods. If any of these unplanned events occur during the calendar year, **you** must contact the Employee Benefits Division at least **two weeks** prior to your last day of work. You are eligible for reimbursement of expenses that you incur after the date of your last paycheck only by continuing to make the biweekly deduction payments.

There are two options for payment of your deduction amount:

- You can arrange to have the balance of your deductions taken from your last paycheck. The deduction will be taken from pre-tax dollars.
- You can arrange, with the Employee Benefits Division, to pay the balance of deductions. Payments are made with post-tax dollars.

If you do not notify the Employee Benefits Division before going off payroll, your future claims may not be reimbursed. FBMC will not process claims for reimbursement of expenses incurred after the date of your last paycheck until payment has been received from you. This is true even if you had a balance in your account as of the date of your last paycheck. Paying the balance of the billed deductions will enable you to receive full reimbursement for expenses incurred through the end of the year, and recapture amounts remaining in your account at the time you went off payroll.

If you return from a leave of absence, you must contact the Employee Benefits Division to discuss recovery of missed deductions and eligibility requirements. **If you do not contact the Employee Benefits Division, your deductions will be automatically adjusted to make up for missed deductions.**

Social Security

Social Security consists of two tax components: the FICA or OASDI component (the tax for old-age, survivors', and disability insurance) and the Medicare component. A separate maximum wage to which the tax is assessed applies to both tax components. As of January 2004, the maximum taxable annual wage for FICA is $87,000. There is no maximum taxable annual wage for Medicare. If your annual salary after salary reduction is below the maximum wage cap for FICA, you are reducing the amount of taxes you pay and your Social Security benefits may be reduced at retirement time.

However, the tax savings realized through the Flexible Benefits Plan generally outweigh the Social Security reduction. Call FBMC Customer Service at 1-800-342-8017 for an approximation.

FBMC Privacy Notice 4/14/03

This notice applies to products administered by Fringe Benefits Management Company and its wholly-owned subsidiaries (collectively "FBMC"). FBMC takes your privacy very seriously. As a provider of products and services that involve compiling personal—and sometimes, sensitive—information, protecting the confidentiality of that information has been, and will continue to be, a top priority of FBMC. This notice explains how FBMC handles and protects the personal information we collect. Please note that the information we collect and the extent to which we use it will vary depending on the product or service involved. In many cases, we may not collect all of the types of information noted below. FBMC's privacy policy is as follows:

I. We collect only the customer information necessary to consistently deliver responsive services. FBMC collects information that helps serve your needs, provide high standards of customer service, and fulfill legal and regulatory requirements. The sources and types of information collected generally varies depending on the products or services you request and may include:
   - Information provided on enrollment and related forms - for example, name, age, address, Social Security number, e-mail address, annual income, health history, marital status, and spousal and beneficiary information.
   - Responses from you and others such as information relating to your employment and insurance coverage.
   - Information about your relationships with us, such as products and services purchased, transaction history, claims history, and premiums.
   - Information from hospitals, doctors, laboratories and other companies about your health condition, used to process claims and prevent fraud.

II. Under HIPAA, you have certain rights with respect to your protected health information. You have rights to see and copy the information, receive an accounting of certain disclosures of the information and, under certain circumstances, amend the information. You also have the right to file a complaint with the Plan in care of FBMC's Privacy Officer or with the Secretary of the U.S. Department of Health and Human Services if you believe your rights under HIPAA have been violated. Additional information that describes how medical information about you may be used and disclosed and how you can get access to this information is provided electronically on our Web site: www.fbmc-benefits.com. You have a right to a paper copy at any time. Contact FBMC Customer Service at 1-800-342-8017.

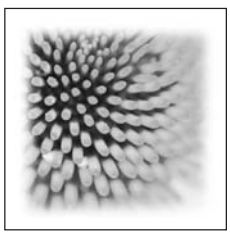
III. We maintain safeguards to ensure information security. We are committed to preventing unauthorized access to personal information. We maintain physical, electronic, and procedural safeguards for protecting personal information. We restrict access to personal information to those employees, insurance companies, and service providers who need to know that information to provide products or services to you. Any employee who violates our Privacy Policy is subject to disciplinary action.

IV. We limit how, and with whom, we share customer information. We do not sell lists of our customers, and under no circumstances do we share personal health information for marketing purposes. With the following exceptions, we will not disclose your personal information without your written authorization. We may share your personal information with insurance companies with whom you are applying for coverage, or to whom you are submitting a claim. We also may disclose personal information as permitted or required by law or regulation. For example, we may disclose information to comply with an inquiry by a government agency or regulator, in response to a subpoena, or to prevent fraud.

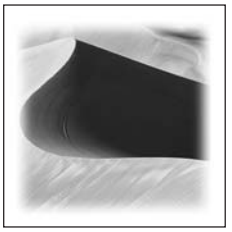
We will provide our Privacy Notice to current customers annually and whenever it changes. If you no longer have a customer relationship with us, we will still treat your information under our Privacy Policy, but we will no longer send notices to you. In this notice of our Privacy Policy, the words "you" and "customer" are used to mean any individual who obtains or has obtained an insurance, financial product or service from FBMC that is to be used primarily for personal or family purposes.

NOTICE OF ADMINISTRATOR'S CAPACITY

PLEASE READ: This notice advises flexible spending account participants of the identity and relationship between the State of Michigan and its Contract Administrator, FBMC. FBMC is not an insurance company. FBMC has been authorized by your employer to provide administrative services for the flexible spending account plans offered herein. FBMC will process claims for reimbursement promptly. In the event there are delays in claims processing, you will have no greater rights in interest or other remedies against FBMC than would otherwise be afforded to you by law.



webcustomerservice@fbmc-benefits.com



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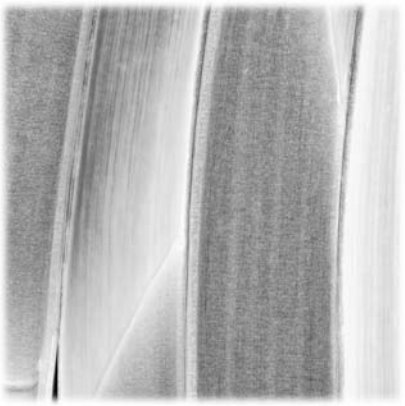

Contract Administrator
Fringe Benefits Management Company
P.O. Box 1878 • Tallahassee, Florida 32302-1878
Customer Service 1-800-342-8017 • 1-800-955-8771 (TDD)
www.fbmc-benefits.com

Information contained herein does not constitute an insurance certificate or policy. Certificates will be provided to participants following the start of the plan year, if applicable.

FBMC/MICH/0903